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NOPCO CHEMICAL COMPANY

1965 ANNUAL REPORT



# NOPCO CHEMICAL COMPANY 1965 ANNUAL REPORT

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## HIGHLIGHTS OF THE YEAR

	1965	1964
Net Sales .....	\$ 65,699,442	\$ 62,544,488
Earnings Before Taxes* .....	6,761,423	4,296,333
Federal and Canadian Income Taxes .....	3,130,000	2,200,000
Net Earnings .....	3,631,423	2,096,333
Dividends Paid in Cash on Common Stock .....	1,321,443	1,144,483
Earnings Per Share Common Stock* .....	2.68	1.54
Dividends Paid Per Share Common Stock .....	1.10	1.00
Gross Plant Additions .....	1,646,000	840,000
Net Working Capital, December 31 .....	15,351,000	15,548,000
Common Stockholders' Equity, December 31 .....	23,282,000	14,591,000
Number of Common Stockholders, December 31 .....	4,573	4,635

\*Includes a charge of \$2,008,201 in 1964 for isocyanate plant extraordinary expense equivalent to \$.68 per share.

The Annual Meeting will be held on Wednesday, April 6, 1966, 2:00 P.M., at The Hotel Robert Treat, 50 Park Place, Newark, N. J.

## THE PRESIDENT'S REVIEW



**GEORGE G. STIER**  
President

### RECORD SALES AND EARNINGS.

Your company in 1965 had the highest sales and earnings in its history. Sales of \$65.7 million were 5% higher than in 1964, and earnings moved from \$2,096,000 to \$3,631,000. Earnings per share were \$2.68 in 1965 compared to \$1.54 per share in 1964. We increased the dividend on common stock, starting with the third quarter, to a yearly rate of \$1.20 from \$1.00.

The earnings per share are reported on a comparable basis for 1964, in view of the conversion of debentures in the last quarter of 1965. Quarterly earnings per share, shown on the same basis for the years 1965 and 1964, would be:

Quarter	1965	1964
First	\$ .52	\$ .25
Second	.64	.31
Third	.72	.43
Fourth	.80	.55
Totals	\$2.68	\$1.54

**OPERATIONS AND TRENDS.** Our overall sales pattern changed slightly from the previous year with the Industrial Division moving from 49 to 50% of total sales, Plastics together with Clark decreasing from 30 to 28%, Fine Chemicals increasing from 17 to 19% and International moving from 4 to 3%.

Industrial sales were up 8% over 1964 with margins slightly lower, in view of raw material increases in

certain areas and added research & development and selling expenses. Our prices, which normally lag raw material increases, have been adjusted in most instances and margins should move upward slightly in 1966.

Fine Chemicals sales were up 10% over 1964 and, although prices were selectively weaker, costs were down all along the line. Overall margins remained essentially the same, with some improvements.

The positive environment for Plastics continued, with overall sales up 5% even though there was an 11% reduction in sales volume at the Clark subsidiaries. Margins also improved, although negated to some degree by the Clark operations as they experienced stiffer competition and lower prices. We look for continued improvement in Plastics.

The direct export sales of the International Division were down approximately 30% over 1964. This was created in large measure by our policy of increasing the production of materials by our foreign affiliates. Margins remained the same and future growth will come from the expansion of our activities abroad, by the affiliates, rather than from an increase in direct exports from this country.

In general, while we expect small variations in margins as raw material selling prices fluctuate in the economy, we see for the most part a steadily improving environment in the marketing areas for all divisions in the coming year.

**BASE FOR GROWTH.** Activities of the various divisions are discussed in detail in the Operations section of this report, and they reflect the progress made in an economy marked by a high level of both general industrial activity and competition. The operations also reflect the added expenses and investments made in 1965 as we geared for aggressive expansion of our business.

Among these are a corporate development group—actively studying and working on the area of growth through acquisition, and the expenses involved in improving production practices and yields, thereby lowering costs in certain areas.

Another phase of preparation encompassed the moves made in 1965 in connection with our financial structure. Calling the convertible debentures, with consequent reduction of debt ratio, and elimination of the preferred stock give us considerable latitude and freedom of action in the financing of acquisitions or other capital projects.

Also, we included earnings from foreign operations for the first time in our 1965 report. These earnings promise to increase steadily in the future, and their inclusion in our reports will more completely reflect true, total Nopco earning power.

**OPPORTUNITIES AND DIRECTION.** We have greatly increased our emphasis recently on growth through acquisition. Much of the

necessary comprehensive background has been gathered and the management team is ready for substantially increased activity in this endeavor through 1966.

Many opportunities exist, and some are of rather large magnitude. All of these opportunities now under consideration involve operations that are closely akin to ours, so that present skills, such as in technical service and marketing, will be obvious plus factors.

Certain opportunities have already been acted upon. Purchase of the assets of Marcus Ruth Jerome Company, of Pittsburgh, Pa., was completed in October 1965. The acquisition of Superior Zinc Company, of Bristol, Pa., was made in December 1965. In both instances, the compatibility of the business with ours promises profitable operations.

The philosophy behind this new emphasis is that we see profitable operations in the specialties and in the processing chemicals, rather than in the large volume commodity chemicals. So it will be the former area that will receive our attention and activity.

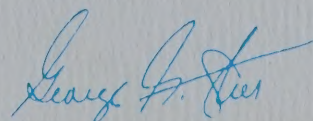
As the economy grows, the expansion of industry means more stability and greater opportunities for the processing aids we produce. At the same time, the increased capacity of the larger plants turning out commodity chemicals means we will benefit from ever-lower raw material costs.

#### **DIRECTORS AND OFFICERS.**

Thomas A. Printon, member of the board of directors and a former president of Nopco, died in 1965, and we greatly mourn his passing. The board was thus reduced to a total of 11 directors.

At the February 1966 meeting of the board of directors, Dr. Louis J. Owen was elected a vice president. He will assume charge of the Clark operations, as well as maintaining his responsibility for the operations of the Plastics Division.

**THE PEOPLE OF NOPCO.** Credit is due to all of our employees, throughout our divisions, in the various plants and locations, for the fine year we had in 1965. We know and recognize the importance of each person in the cooperative effort that produces such a year, and our future growth and success will be measured in terms of total effort on the part of each Nopco employee in his own special job. We appreciate also the fact that good labor relations were experienced in 1965. We successfully negotiated all contracts that came due during the year, and look for continuing good relations in 1966.



President  
February 23, 1966

## NOPCO CHEMICAL COMPANY

### 1965 ANNUAL REPORT



ROBERT M. URICH  
Vice President

## FINANCIAL REVIEW

**SALES, EARNINGS.** Net sales in 1965 were \$65,699,442, representing a 5% increase over 1964 sales of \$62,544,488. Earnings were \$2.68 per common share compared with \$1.54 in 1964. Each year's earnings are computed on the average shares outstanding assuming that the 200,763 shares issued on conversion of the 4¾% convertible subordinated debentures in 1965 were outstanding for both periods.

**DIVIDENDS.** Nopco paid cash dividends on its common stock for the 39th consecutive year in 1965. Dividends of \$.25 per share were paid for each of the first two quarters of the year, then the rate was increased by 20% and \$.30 per share dividends were paid in the third and fourth quarters.

Regular quarterly dividends of \$1.00 per share were paid on the preferred shares during the time that they were outstanding.

**CAPITALIZATION.** The number of outstanding shares of common stock reached a new high level in 1965, increasing by: (1) 200,763 shares through conversion of the 4¾% convertible subordinated debentures which were called for redemption on November 22nd, (2) 20,000 shares which were used for the acquisition of Metchem Research, Inc., in December, and (3) 2,795 shares issued during the year under the company's stock option plans.

The company purchased all the shares of outstanding preferred stock during the year, with the exception of 303 shares which were redeemed November 30th. This eliminated the preferred stock from the capitalization of the company and left only the outstanding common capital shares.

**CASH POSITION.** Nopco's cash position increased from \$1.8 million to \$7.2 million during the year. The main sources of cash were: the excellent earnings, the sale of the isocyanate plant, the receipt of the tax refund due from prior years and the small amount of tax required to be paid during the year on 1965 earnings. Because of this large cash flow, an optional payment of \$300,000, as well as the \$300,000 mandatory payment, was made under the company's 5½% sinking fund notes. In addition, the outstanding preferred stock was redeemed for cash and the call for redemption of the convertible subordinated debentures left a small number (2.7%) of unconverted debentures to be paid off. On January 3, 1966, a further optional payment of \$300,000 was made on the 5½% sinking fund notes which will, in addition to the large tax payments and other items in the year, tend to reduce somewhat this very large cash balance.

**INVESTMENTS.** Late in 1965, the Nopco stock holdings in Mundet Cork Corporation were exchanged for Crown Cork & Seal Company stock which under the terms of the agreement will produce a value equal to or higher than our original cost.

Small monetary investments were made during the year in our foreign affiliated companies with much of the needed financing coming locally from the countries of origin.

**ACQUISITIONS.** During the year, we purchased the former Marcus Ruth Jerome Co. plant for \$180,000 cash from the Small Business Administration. This company, located on Neville Island at Pittsburgh, Pa., will be operated as a wholly owned subsidiary of Nopco.

We also purchased, for 20,000 shares of Nopco common capital stock, Metchem Research, Inc., trading under the name of Superior Zinc Company. The operating plant of this company is located at Bristol, Pa. The net assets, valued at \$800,000, were consolidated in the December 31st balance sheet.

**CAPITAL EXPENDITURES.** Expenditures of \$1,646,000 were made in 1965 for capital projects throughout the company and we anticipate that this type of spending will approximate \$2,500,000 in 1966. Internal cash flow should be adequate to finance all of the expenditures projected for the year. Many of the 1965 planned projects were not advanced enough to require funds in the year but will be carried over. Additionally, new projects of plant betterment and expansion are going forward.

**INTERNATIONAL COMPANIES.** The income (net of taxes which would be payable upon distribution) earned by our wholly owned Swiss subsidiary, Nopco Chimie, S. A., and the 50% owned foreign affiliated companies has been included in the earnings for the first time. Current earnings of \$130,000 have been included in consolidated earnings for 1965 while the accumulated earnings for prior periods have been credited directly to the retained earnings account. We expect continued growth in these earnings in the future.

**BALANCE SHEET.** The result of the capital changes in 1965, the reduction in the long-term debt and the better cash position will enable the company to progress with its expansion plans through acquisitions and growth from within.

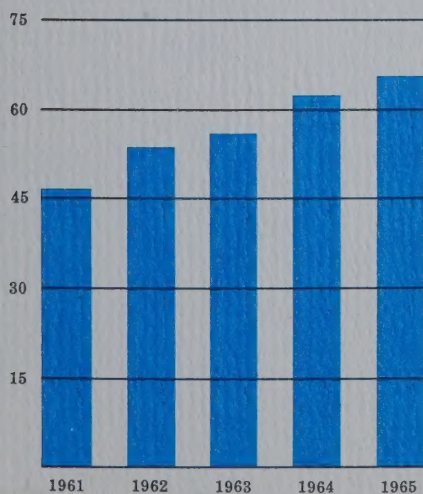
# SOURCE AND APPLICATION OF FUNDS

## SOURCE OF FUNDS:

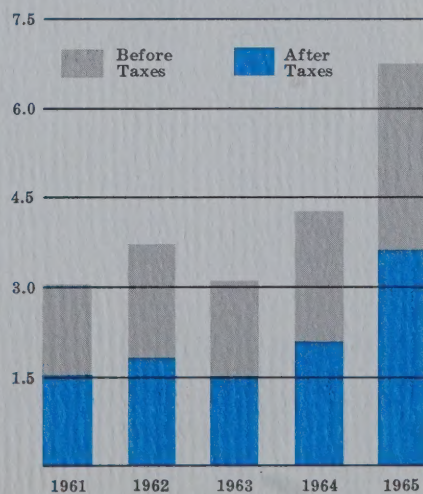
	1965	1964
Net Earnings.....	\$ 3,631,423	\$ 2,096,333
Add items not requiring outlay of funds:		
Depreciation of fixed assets.....	1,053,421	1,515,174
Charge equivalent to tax saving relating to loss on isocyanate plant.....	—	1,450,000
Miscellaneous.....	33,712	611,304
Total provided from operations.....	4,718,556	5,672,811
Recoveries from disposals of plant and equipment.....	11,634	2,298,745
Refundable Federal income taxes.....	—	865,775
Sale of common stock under stock option plans.....	80,595	56,316
Other.....	113,875	291,095
Total provided.....	4,924,660	9,184,742

## APPLICATION OF FUNDS:

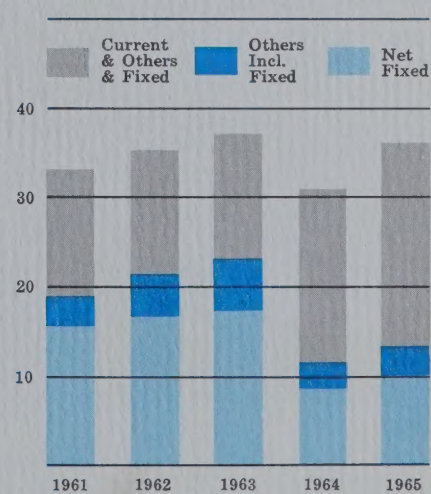
Cash dividends paid.....	1,337,170	1,174,615
Expenditures for plant and equipment.....	1,645,754	840,704
Installment payments on sinking fund notes.....	964,000	300,000
Redemption of 4¾% convertible subordinated debentures....	170,857	—
Purchase and call of preferred stock.....	729,757	13,310
Other.....	274,725	268,121
Total applied.....	5,122,263	2,596,750
Increase (decrease) in working capital.....	\$ (197,603)	\$ 6,587,992



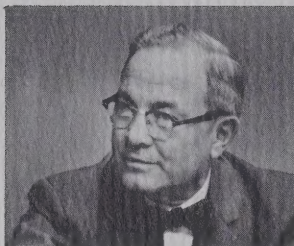
SALES (Millions of Dollars)



EARNINGS (Millions of Dollars)



ASSETS (Millions of Dollars)



**HARRY A. BATLEY**  
Executive Vice President

## OPERATIONS

**INDUSTRIAL.** Gains in production and sales volume of the Industrial Division continued in 1965, and the division accounted for 50% of overall Nopco sales. In the first five years of this decade, sales have moved from \$23,000,000 in 1961 to \$33,237,000 in 1965—for a sales improvement of 43.9%. In the same period, profits have more than doubled.

During the past year, substantial investments have been made in plant and equipment at several locations. One of the more important was the ethylene oxide unit expansion at Cedartown, Ga. This tripled our capacity for ethoxylation and affords a capability for propoxylation—to widen the scope of our product lines. The products initiating from this unit will materially aid sales in every industry we serve.

The pulp and paper industry in 1965 exhibited dynamic process improvements, and Nopco's technical capabilities have kept pace with the industry. Our patented new defoamer concepts were largely re-

**PROCESSING AIDS**, produced by Nopco's Industrial Division, lend a vital, helping hand in the manufacture of virtually all types of goods and products throughout American industry. This chemist is in the process of synthesizing polymers which are used in a broad range of Nopco products.

sponsible for increased sales in this area. As a target for increasing our sales in 1966, we are aiming for new chemicals to assist the industry in chemical pulping and conversion.

Our Textile Department increased sales volume in a much improved industry climate. We have seen our cotton processing oil advance from pilot plant stage to actual plant usage in several of the country's largest cotton mills. Trials and plant demonstrations in other mills have resulted in wide industry recognition of its value. Many of the initial application difficulties have been resolved and a rapid expansion of sales can be anticipated in 1966.

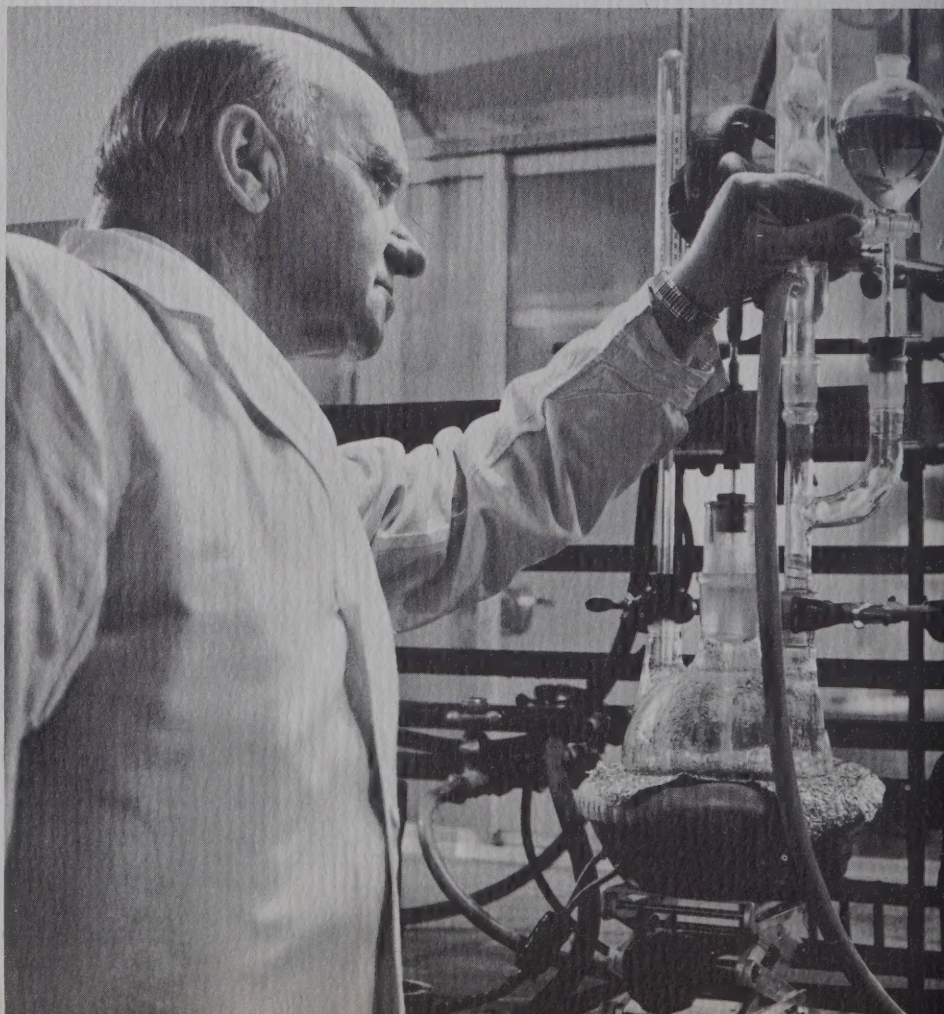
Continuing developmental work and field testing of urethane polymers have pointed out markets in durable press and fabric coating, which should also result in sales gains.

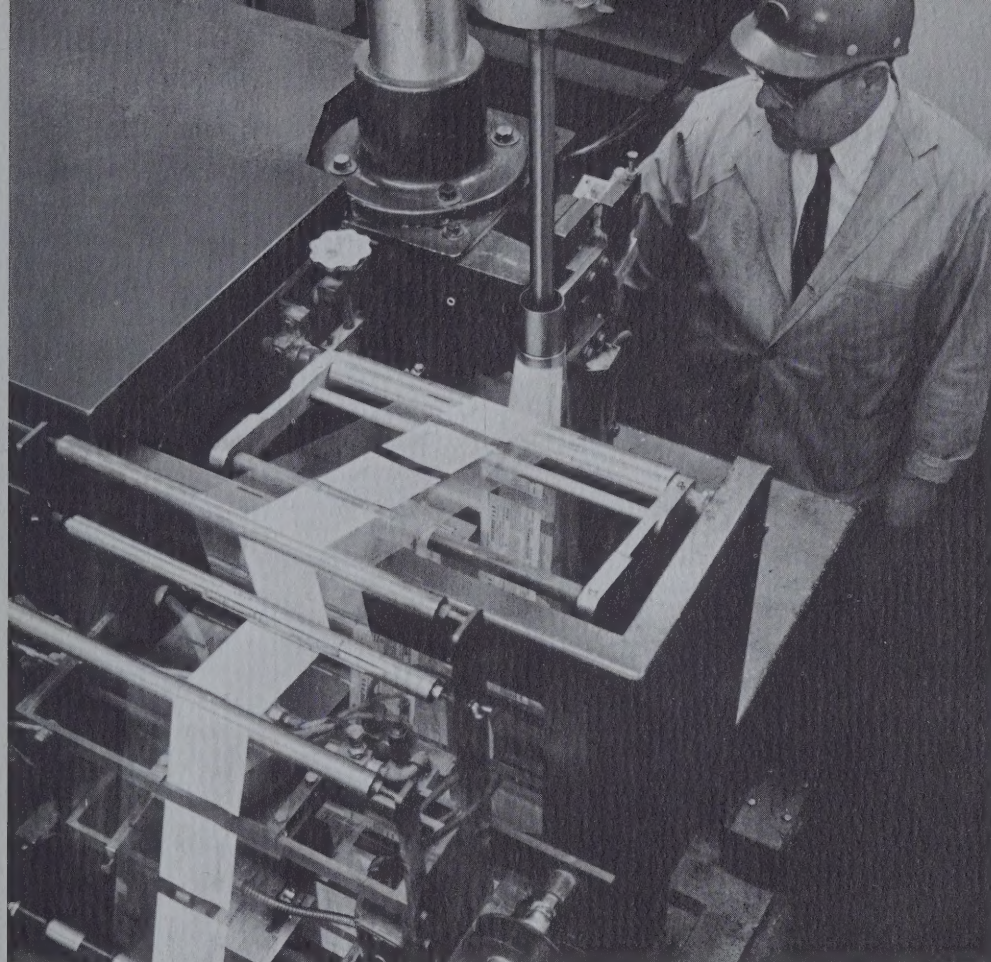
As new synthetic fibers and fabrics continue to appear, our research and development laboratories are providing technology and sophisticated chemicals for their manufacture.

The Tanning Department continues to increase its sales volume, due largely to gains in our new auxiliary tanning chemicals—a field in which Nopco is becoming a major factor. Many of these products represent new concepts in polymer additives developed by our research and development department.

The Specialties Department has traditionally been employed to pioneer sales in new industries. As sales to any industry increase substantially, a new sales department is established. In recent years this has resulted in the formation of the Protective Coatings, Metal Processing and, in 1965, the Rubber and Plastics Department. The Specialties Department is concentrating on sales and development of new chemicals for the crude petroleum, mining, sugar beet and cosmetic industries.

The Protective Coatings Department in 1965 continued to grow at a rapid rate, and we further improved our leading position in latex paint defoamers. The current trend to water-





**HIGH-SPEED UNIT PACKAGING** is now possible in the facilities of the Fine Chemicals Division, through use of this automatic machine which weighs the product to meter the exact amount desired into a formed plastic package. The machine also automatically heat-seals the seams to provide a waterproof, weather-proof container.

based paint systems in industrial coatings will provide a substantial market for existing and new chemicals. This department will also concentrate its efforts on the adhesives field, which offers us a new growth area for our products.

Metal Processing Department sales increased at a slower rate than anticipated in 1965. New products have been developed and are now being field tested, and our recent acquisition of the Marcus Ruth Jerome lard oil and fatty chemical plant will contribute raw and finished materials that should accelerate growth of this department.

The new Rubber and Plastics Department with its proven product line, plus intensive laboratory effort to develop new chemicals, should assure growth in this area. Acquisition of Superior Zinc Company, which produces zinc dust and secondary zinc oxide, will also contribute substantially to sales of this department and to the Protective Coatings Department.

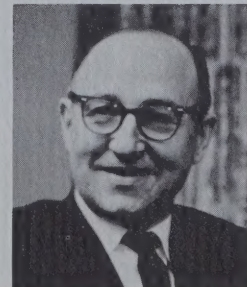
The outlook is good for 1966 and the years beyond for continuing the uptrend in sales, and for gains in profits in spite of added competition and price pressures. Our research and development activities, as well as technical service are being geared to strengthen the technological foundation of our diversified activities.

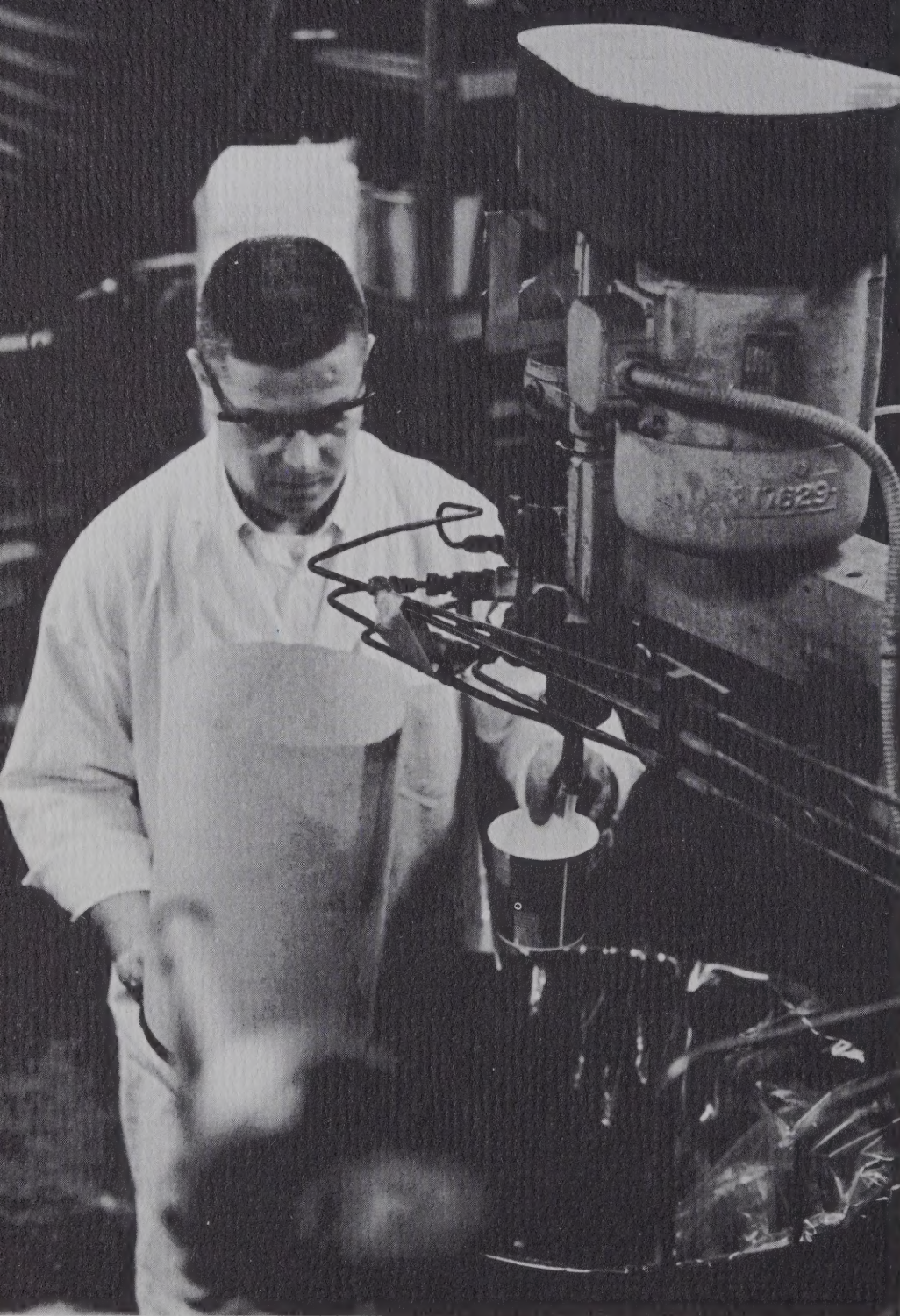
**FINE CHEMICALS.** Dollar sales increased about 10% during 1965 in the Fine Chemicals Division, and total sales for the Division represented 19% of overall Nopco sales volume.

Profits were held to 1964 levels for Fine Chemicals because of continued price attrition in certain portions of the product line. We have divided our efforts between making improvements in all phases of operations and controlling expenses —while supplementing the line with new, more profitable specialties.

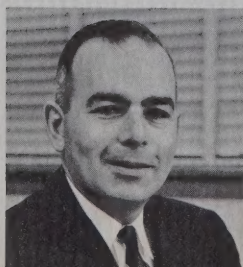
There were substantial increases in the number of units sold, and in 1965 most manufacturing departments operated around the clock,

**MELVIN HOCHBERG**  
Vice President





**EXPERIMENTAL FOAM POURS** are carried out in the laboratories and development areas of the Plastics Division to help in solving customers' problems in the application of Nopcofoam. Typical uses for the foam are in cushioning, shock-absorbing, flotation, acoustical panels, insulating walls and packaging.



**LOUIS J. OWEN**  
Vice President

seven days a week. A program of plant expansion was therefore undertaken to provide for additional production and lower costs.

Our capacity to produce pre-mixes for animal feeds was doubled at Louisville in 1965, and additional property adjacent to the present site is being purchased to permit further expansion. Increased facilities for processing choline chloride were also provided.

Our sales of methionine were substantial in 1965, and we expect a very sizeable increase in methionine sales in 1966.

In addition to these changes, progress was made in two important new product areas. The direct-acid process for the manufacture of sour cream, which substitutes a direct manufacturing approach for fermentation, increased its penetration of the dairy industry. We are also applying this approach to the butter-milk field where the potential for added sales volume is large. Good sales progress has also been made with the new line of multivitamin-antibiotic products for the animal health field. The products are water-soluble and convenient for the treatment of groups of animals via the drinking water during periods of stress or disease. Another group of animal health products, injectable fat-soluble vitamins for cattle, also made excellent progress during the year.

In 1965, the laboratory completed the development of a new product which supplies the important unidentified nutritional factors for poultry. This product is being launched in 1966.

**PLASTICS.** The Plastics Division in 1965 made gains in sales in terms of both units and dollars, as well as substantial increases in profits. In percentage of total Nopco sales, Plastics—together with the Clark operations—accounted for 28%.

The Division had the best year in its history despite localized competition which particularly affected Clark sales and profit margins. Continued modernization and cost re-

duction programs which improved our operating efficiency and lower raw material costs are the major factors in the increasingly favorable results. Our diversification program in flexible foams bore fruit this year and saw us make significant gains in supplying parts to major automobile producers. We anticipate that this business will expand through 1966 and 1967.

The modernization program of the Division will continue through 1966, during which time the most modern foam equipment will be installed in Plainfield, N.J. This new equipment will give us additional capacity which will allow us to service better the foam markets in the eastern portion of the United States. Additionally, we plan to expand the Chattanooga facilities by adding approximately 70,000 square feet to our present plant. Both expansions will permit the attainment of a larger share of an expanding market for flexible foams.

Our Systems Department continued on a profitable basis in 1965. This Department is staffed with technical and sales personnel who possess considerable experience in this young industry and are responsible for the continuing excellent performance of this Department.

We continue to strengthen our new product development efforts to replace the products which are phased out as technology changes. In our Systems Department, we have introduced several new items in 1965 including one having better self-extinguishing properties, and a specialty adhesive for rebonding

scrap foam and fibers. In our flexible foam effort, several new foams were developed which have allowed us to expand our vistas in the specialty foam area, into automotive foams and into those designed to improve the overall image of flexible foams as a result of the improved performance characteristics they possess.

We look forward to 1966 with optimism. We will be in a better position to improve our penetration in those markets which we now serve, and to break into new market areas.

**INTERNATIONAL.** Satisfying progress and gratifying gains were made again in international operations, resulting from our technical assistance rendered throughout the world. The program to establish new affiliates and expand existing ones in the various countries continues.

The International sales constituting direct exports accounted for 3% of Nopco's total sales volume during 1965. The production of intermediates rose appreciably in the foreign countries, according to our planned program. The sale of Nopco products produced by our affiliates increased to a level of \$3 million. Direct exports, combined with sales of affiliates' production, are now at a level of \$5 million, all of which are in the profitable categories of products for use in manufacturing paper, synthetic fibers and paints.

Two new manufacturing affiliates were added in 1965: Nopco Venezolana S.A., Caracas, Venezuela, and Nopco (India) Private Limited, Bombay, India. These two, along with

the five affiliated companies in Europe, plus one each in Mexico and Australia, bring the total to nine. An investment was made during the year in Brazil toward establishing an affiliated company to manufacture Nopco products.

Application has been made to the Japanese government for the establishment of an affiliated company, to be located in Kyoto, Japan, which should begin operations during 1966. Firpeco S.A. was established as a manufacturing licensee in Peru, a country where the market for our products is expanding. As the volume of business in a country expands we are continually studying the desirability of permitting an agent to become a manufacturing licensee.

In Finland, we established Nopco Senko OY in Helsinki which will operate to warehouse and sell Nopco products in Finland. In Switzerland, Nopco Chimie S.A. moved to new and larger quarters as its operations expanded.

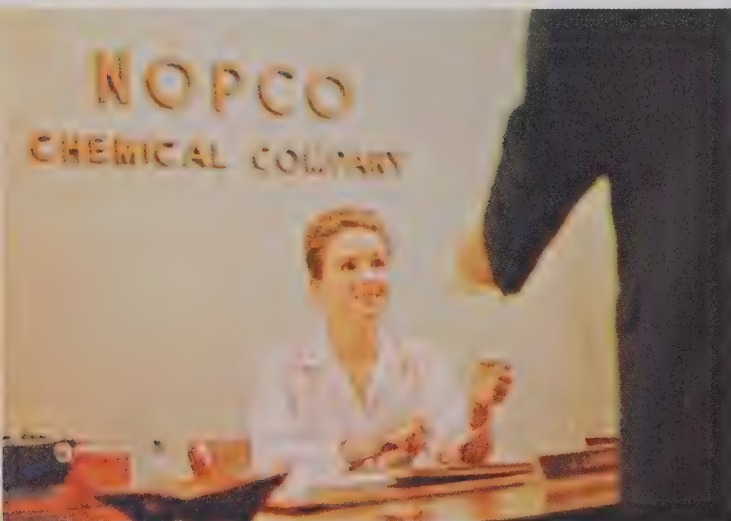
The International program's outlook again looks bright for the year ahead. New affiliates have been added, new facilities have been installed, standards of living continue to rise throughout many areas of the world, and the demand for our products rises steadily.

**DR. EDWIN A. ROBINSON**, Vice President, confers with his associates on the operations of the International Division, which is responsible for Nopco products sold abroad and the activities of affiliated companies and representatives in more than 15 countries throughout the world.



# NOPCO is PEOPLE . . .

People play the important role in our company, not the machines or the plants. No matter what the job, it's important in the team effort that makes Nopco successful. Here are examples of where Nopco people work, and the variety of jobs that are encompassed in our operations.



RECEPTIONIST



CONSTRUCTION — MAINTENANCE



CHEMICAL PROCESSING



PRODUCTION



EXECUTIVE COMMITTEE

SHIPPING



SECRETARIAL



LIBRARY



ACCOUNTING



SAFETY



RESEARCH — DEVELOPMENT — SALES

## CONSOLIDATED BALANCE SHEET

December 31, 1965 (with comparative figures for 1964)

ASSETS	1965	1964
Current Assets:		
Cash (including time deposits of \$4,200,000 in 1965).....	\$ 6,247,237	\$ 1,877,355
U. S. Government securities, at cost (approximately market).....	975,062	—
Receivables:		
Customers and others, less allowance for doubtful accounts of \$139,343 (\$120,414 in 1964).....	6,420,190	6,015,975
Refundable Federal income taxes.....	—	865,775
Estimated proceeds of sale of isocyanate plant.....	—	1,800,000
Total receivables.....	6,420,190	8,681,750
Inventories—at average cost, not in excess of replacement cost:		
Finished goods.....	4,532,351	4,165,142
Raw materials and work in process.....	4,309,844	3,970,944
Containers and supplies.....	470,863	397,079
Total inventories.....	9,313,058	8,533,165
Prepaid expenses.....	227,601	301,520
Total Current Assets.....	23,183,148	19,393,790
Property, Plant and Equipment, At Cost.....	23,594,488	21,864,829
Less accumulated depreciation and amortization.....	13,614,929	13,352,732
Net Property, Plant and Equipment.....	9,979,559	8,512,097
Other Assets:		
Investment in and advances to foreign subsidiary and 50% owned foreign companies, at equity in underlying net assets (Note 2).....	557,771	337,987
Other securities and investments (Note 3).....	2,077,803	2,044,244
Deferred charges.....	410,410	586,979
Total Other Assets.....	3,045,984	2,969,210
	<u>\$ 36,208,691</u>	<u>\$ 30,875,097</u>

See Accompanying Notes to Consolidated Financial Statements

# NOPCO CHEMICAL COMPANY

## 1965 ANNUAL REPORT

### LIABILITIES AND STOCKHOLDERS' EQUITY

	1965	1964
<b>Current Liabilities:</b>		
Current portion of long-term debt.....	\$ 364,000	\$ —
Accounts payable.....	3,755,936	2,509,389
Accrued liabilities:		
Salaries, wages and other compensation.....	372,991	351,388
Other expenses and taxes.....	424,480	371,406
Federal and Canadian income taxes.....	2,914,514	612,777
Total Current Liabilities.....	7,831,921	3,844,960
Deferred income taxes.....	359,000	308,000
<b>Long-Term Debt (Note 5):</b>		
5½% Sinking Fund Notes, less current portion.....	4,736,000	5,700,000
4¾% Convertible Subordinated Debentures.....	—	5,687,000
Total Long-Term Debt.....	4,736,000	11,387,000
<b>Stockholders' Equity:</b>		
Capital Stock:		
Preferred stock of \$100 par value. Authorized 50,000 shares, including 25,000 shares of 4% cumulative preferred stock, Series A; 7,438 shares of Series A outstanding in 1964.....	—	743,800
Common stock of \$1 par value. Authorized 2,000,000 shares; issued and outstanding 1,368,995 shares (1,145,437 in 1964) (Notes 5 and 6).....	1,368,995	1,145,437
	1,368,995	1,889,237
Additional paid-in capital.....	12,398,630	6,371,741
Retained earnings (Note 5).....	9,514,145	7,074,159
Total Stockholders' Equity.....	23,281,770	15,335,137
	\$ 36,208,691	\$ 30,875,097

# NOPCO CHEMICAL COMPANY

## 1965 ANNUAL REPORT

NOPCO CHEMICAL COMPANY AND CONSOLIDATED SUBSIDIARIES

### STATEMENT OF CONSOLIDATED EARNINGS

Year Ended December 31, 1965 (with comparative figures for 1964)

	1965	1964
<b>INCOME</b>		
Net sales . . . . .	\$ 65,699,442	\$ 62,544,488
Other income . . . . .	493,231	318,396
Total income . . . . .	66,192,673	62,862,884
<b>COSTS AND EXPENSES</b>		
Cost of goods sold and other operating costs . . . . .	46,496,139	43,761,365
Selling, administrative and general expenses . . . . .	12,475,454	11,670,032
Extraordinary expenses relating to isocyanate plant . . . . .	—	2,008,201
Interest and debt expense, net of interest income . . . . .	245,350	621,533
Other charges . . . . .	214,307	505,420
Total costs and expenses . . . . .	59,431,250	58,566,551
Earnings before income taxes . . . . .	6,761,423	4,296,333
Federal and Canadian income taxes (Note 4) . . . . .	3,130,000	2,200,000
Net earnings . . . . .	\$ 3,631,423	\$ 2,096,333
Depreciation and amortization of fixed assets included above . . . . .	\$ 1,053,421	\$ 1,515,174

See Accompanying Notes to Consolidated Financial Statements

# STATEMENT OF CONSOLIDATED RETAINED EARNINGS

Year Ended December 31, 1965 (with comparative figures for 1964)

	1965	1964
Balance at beginning of year . . . . .	\$ 7,074,159	\$ 9,877,418
Add:		
Net earnings for the year . . . . .	3,631,423	2,096,333
Equity in undistributed earnings of foreign subsidiary and 50% owned foreign companies applicable to prior years (Note 2) . . .	145,733	—
	<u>3,777,156</u>	<u>2,096,333</u>
	10,851,315	11,973,751
Deduct:		
Cash dividends paid:		
On 4% cumulative preferred stock . . . . .	15,727	30,132
On common stock, \$1.10 per share (\$1 in 1964) . . . . .	1,321,443	1,144,483
	<u>1,337,170</u>	<u>1,174,615</u>
Loss relating to disposal of isocyanate plant, net of related tax benefit of \$3,810,000 . . . . .	—	3,724,977
	<u>1,337,170</u>	<u>4,899,592</u>
Balance at end of year (Note 5) . . . . .	<u>\$ 9,514,145</u>	<u>\$ 7,074,159</u>

# STATEMENT OF CONSOLIDATED ADDITIONAL PAID-IN CAPITAL

Year Ended December 31, 1965 (with comparative figures for 1964)

	1965	1964
Balance at beginning of year . . . . .	\$ 6,371,741	\$ 6,315,485
Excess of cash proceeds over par value of 2,795 shares of common stock issued under employees' restricted stock option plan (2,986 shares in 1964) . . . . .	77,800	53,330
Excess of conversion price over par value of 200,763 shares of common stock (28 shares in 1964) issued on conversion of 4¾% Convertible Subordinated Debentures after deductions for purchase of fractional shares, deferred debt expense, etc. . . . .	5,155,846	735
Excess of market value over par value of 20,000 shares of common stock issued for the acquisition of a business . . . . .	779,200	—
Discount on purchase or redemption of preferred stock . . . . .	14,043	2,191
Balance at end of year . . . . .	<u>\$ 12,398,630</u>	<u>\$ 6,371,741</u>

See Accompanying Notes to Consolidated Financial Statements

## NOTES to Consolidated Financial Statements—December 31, 1965

### (1) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Nopco Chemical Company and its United States and Canadian subsidiaries, all of which are wholly owned. The Company's wholly-owned Swiss subsidiary, which is not significant, has not been consolidated. The accounts of the Canadian subsidiaries have been converted into United States dollars at appropriate rates of exchange and all significant intercompany balances and transactions have been eliminated in consolidation.

On December 30, 1965, the Company acquired all of the outstanding capital stock of Metchem Research, Inc. in consideration for the issuance of 20,000 shares of the Company's common stock. For accounting purposes this transaction was accounted for as a purchase. The value of the net assets acquired approximated the fair market value of the shares issued.

### (2) INVESTMENT IN FOREIGN SUBSIDIARY AND 50% OWNED COMPANIES

The Company's investments in its unconsolidated Swiss subsidiary and in 50% owned foreign companies are stated at equity in the underlying net assets after provision for United States income taxes that would be payable if the net assets were distributed to the Company. At December 31, 1964, these investments were stated at cost.

The increase in the equity in the net assets of these companies for the current year of \$130,095 has been included in net earnings. The adjustment to these investments applicable to prior years of \$145,733 (\$92,065 applicable to 1964) has been credited to retained earnings; such amount will be included as a special credit in the statement of consolidated earnings in the Company's annual report to the Securities and Exchange Commission.

### (3) OTHER SECURITIES AND INVESTMENTS

Other securities and investments are stated

at cost which approximates in the aggregate, the total of the market value of the securities and/or underlying equity in the net assets of such companies.

### (4) INCOME TAXES

The provision for Federal and Canadian income taxes includes \$95,000 (\$66,000 in 1964) for deferred taxes applicable to accelerated tax depreciation and other tax adjustments, including \$59,000 applicable to undistributed earnings of the Swiss subsidiary and 50% owned companies (see Note 2).

The Federal income tax provision for 1964 includes a charge equivalent to Federal income taxes otherwise payable of \$1,450,000 relating to the loss on disposal of the Isocyanate plant, which was applied in partial reduction of the loss charged to retained earnings.

As in the prior year, the investment credit has been applied as a reduction of the current tax provision and is not material in amount.

### (5) LONG-TERM DEBT

The 5½% sinking fund notes are payable in annual installments of \$300,000 on January 1 of each year to and including January 1, 1980. The installment due on January 1, 1966 was paid in December 1965. The loan agreement provides for optional prepayments (\$300,000 paid on May 9, 1965) and in addition, requires that the Company make annual mandatory prepayments on the notes in the amount of 10% of the consolidated earnings for the preceding year in excess of \$3,000,000.

On January 3, 1966, the Company made an optional prepayment of \$300,000 and under the mandatory prepayment requirement must make an additional payment of \$64,000 prior to July 1, 1966 based on 1965 earnings. The total of \$364,000 has been included in current liabilities at December 31, 1965.

The loan agreement relating to the sinking fund notes contains, among other covenants, certain restrictions on the payment of cash

dividends on common stock, and as to the purchase, redemption or other retirement of any class of its capital stock. In addition, the notes require that the Company maintain working capital of not less than \$6,000,000 at any time. At December 31, 1965, approximately \$4,213,000 of the consolidated retained earnings was free under the most restrictive of these provisions.

During 1965, \$5,531,500 face amount of the 4¾% Convertible Subordinated Debentures were converted into 200,763 shares of common stock and the balance, \$155,500, redeemed.

### (6) STOCK OPTIONS

The Company has in effect two restricted stock option plans for employees which were approved by stockholders May 24, 1966 and March 23, 1961. Both plans provide that the purchase price shall be not less than 95% of the fair market value of the common stock at the time the option is granted and the maximum period for the exercise of any option is ten years after its grant and the minimum period is one year.

At December 31, 1965, options covering 56,025 shares were outstanding at prices ranging from \$23.50 to \$46.80 per share and a total option price of \$2,177,164. At such date, options on 5,200 shares under the 1961 plan were available for granting; however, additional shares may become available through reversions.

### (7) EMPLOYEES' RETIREMENT PLANS

The Company and certain of its consolidated subsidiaries have in effect various contributory and non-contributory retirement pension plans covering their employees. The cost of these plans for the years ended December 31, 1965 and 1964 was approximately \$485,000 and \$461,000, respectively. The estimated unfunded past service cost at December 31, 1965 was approximately \$1,060,000.

## ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

RAYMOND-COMMERCE BUILDING

NEWARK, N. J. 07102

To the Stockholders and  
Board of Directors of  
Nopco Chemical Company:

We have examined the consolidated balance sheet of Nopco Chemical Company and its consolidated subsidiaries as of December 31, 1965 and the related statements of earnings, retained earnings and additional paid-in capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and the statements of consolidated earnings, retained earnings and additional paid-in capital present fairly the financial position of Nopco Chemical Company and its consolidated subsidiaries at December 31, 1965 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

January 31, 1966

# 10-YEAR COMPARATIVE SUMMARY OF FINANCIAL STATISTICS

(In Thousand Dollars, Except Earnings Per Share)

	1965	1964	1963	1962
<b>OPERATING RESULTS</b>				
Net Sales	\$ 65,699	\$ 62,544	\$ 55,930	\$ 53,833
Earnings Before Taxes <sup>(2)</sup>	6,761	4,296	3,125	3,763
Federal and Canadian Income Taxes	3,130	2,200	1,600	1,911
Net Earnings	3,631	2,096	1,525	1,852
Cash Dividends Paid:				
On Preferred Stock	16	30	30	31
On Common Stock	1,321	1,144	1,142	1,137
Earnings Retained for Expansion	2,294	922	353	684
Earnings per Common Share <sup>(1) (2)</sup>	\$ 2.68	\$ 1.54	\$ 1.11	\$ 1.47
Includes extraordinary income of	—	—	—	—
<b>FINANCIAL POSITION</b>				
Current Assets	\$ 23,183	\$ 19,394	\$ 14,482	\$ 14,352
Net Working Capital	15,351	15,548	8,961	8,968
Property, Plant and Equipment (Net)	9,980	8,512	17,119	16,575
Gross Plant Additions in Year	1,646	840	2,225	2,678
Total Assets	36,209	30,875	37,126	35,514
Total Stockholders' Equity	23,282	15,335	18,094	17,691

(1) Based on average number of shares outstanding during the year adjusted to reflect:

(A) Stock Dividends of 2% in 1958, 2½% in 1959, 2% in 1960; Stock Split of two for one in 1959 and

(B) 200,763 shares issued on conversion of Debentures in 1965 assumed to be outstanding as of July 1, 1962.

1961	1960	1959	1958	1957	1956
\$ 46,702	\$ 39,852	\$ 37,256	\$ 29,235	\$ 27,476	\$ 25,959
3,079	3,652	4,498	3,435	3,222	3,161
1,545	1,879	2,236	1,685	1,586	1,576
1,534	1,773	2,262	1,750	1,636	1,585
31	32	34	34	35	35
1,122	1,070	1,028	989	984	886
381	671	1,200	727	617	664
\$ 1.35	\$ 1.60	\$ 2.08	\$ 1.64	\$ 1.53	\$ 1.48
—	—	(.12)	(.14)	(.10)	—
\$ 14,370	\$ 12,894	\$ 14,025	\$ 9,034	\$ 8,622	\$ 8,702
8,155	7,980	9,812	6,014	5,479	5,907
15,265	8,669	8,134	5,496	5,427	4,746
7,034	1,472	2,070	804	1,256	1,412
33,099	24,299	23,818	16,127	15,233	14,281
16,884	15,385	14,606	13,107	12,091	11,485

2) Includes a charge of \$2,008,201 in 1964 and \$1,041,405 in 1963 for isocyanate plant extraordinary expense equivalent to \$.68 and \$.35 per share net, respectively.

## EXECUTIVE OFFICES

60 Park Place  
Newark, N.J.

## REGISTRAR

Morgan Guaranty Trust Company  
of New York  
New York, N.Y.

## TRANSFER AGENT

The Chase Manhattan Bank, N.A.  
New York, N.Y.

## SALES OFFICES

Chicago, Ill.  
Boston, Mass.  
Newark, N.J.  
Portland, Ore.

## PLANTS

Richmond, Calif.  
Cedartown, Ga.  
Louisville, Ky.  
Carlstadt, N.J.  
Harrison, N.J.  
North Arlington, N.J.  
Plainfield, N.J.  
Chattanooga, Tenn.

## SUBSIDIARIES

Clark Companies  
Denver, Colo.  
Chicago, Ill.  
Evansville, Ind.  
Minneapolis, Minn.  
Omaha, Neb.  
Salt Lake City, Utah  
Canadian Aniline and Extract Co., Ltd.  
Hamilton, Ontario, Canada  
Metchem Research, Inc.  
(Superior Zinc Company)  
Bristol, Pa.  
Nopco Chemical Canada, Ltd.  
London, Ontario, Canada  
Nopco Chemical Company (Pa.)  
Neville Island, Pa.  
Nopco Chimie S.A.  
Fribourg, Switzerland

## ASSOCIATED COMPANIES

Nopco Beith Pty., Ltd.  
Sydney, Australia  
Nopco Hess Ltd.  
Leeds, England  
Nopco Senko OY  
Helsinki, Finland  
Doittau-Sopura S.A.  
Corbeil, France  
Nopco Münzing G.m.b.H.  
Heilbronn, Germany  
Nopco (India) Private Ltd.  
Bombay, India  
Nopco Italiana S.p.A.  
Milan, Italy  
Japan Nopco Co., Ltd.  
Osaka, Japan  
Nopco Industrial, S.A.  
Mexico, D.F., Mexico  
Nopco Senko A/S  
Drammen, Norway  
Nopco Venezolana S.A.  
Caracas, Venezuela

## DIRECTORS

Harry A. Batley\*  
Leslie M. Cassidy  
William A. Coolidge  
G. Daniel Davis  
Richard N. Gulick  
Melvin Hochberg\*  
Edwin A. Robinson\*  
George G. Stier\*  
Fred R. Sullivan  
H. Edward Toner  
Robert M. Urich\*

\*Member Executive Committee

## OFFICERS

George G. Stier, President  
Harry A. Batley, Executive Vice President  
John N. Gammon, Vice President  
Melvin Hochberg, Vice President  
R. Lamar Jones, Vice President  
Walter B. Morehouse, Vice President  
Louis J. Owen, Vice President  
Edwin A. Robinson, Vice President  
Robert M. Urich, Vice President  
Alfred O. Brookes, Treasurer  
Julius J. Denzler, Secretary  
Charles H. Lighthipe, Asst. Vice President  
Robert T. Whelan, Asst. Vice President  
Fred E. Brown, Vice President  
Nopco Chemical (Canada)  
William L. Clark, Vice President  
Clark Companies



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